# NETFLIX80 (DRx)

# Conquering from global streaming to content entertainment

- Net profit growth on Netflix's strengths in content and effective growth strategies

- 2.5x market cap upside by 2030 and near-term growths on strong 1Q25 start

- One of few survivors and growth plays in US stock markets

## Strong start in 2025

Netflix (NLFX) delivered a strong net profit of USD10.5b (+13% y-y), USD40m higher than consensus estimate and EPS of USD6.61 (+25% y-y), USD0.95 higher than market estimate. Operating margin was 31.7%, up from 28.1% in 1Q24. Beginning 1Q25, Netflix will not report its changes in subscriber number, which ended 2024 at 302m membership (+19m in 4Q24). Growths in revenue and net profit were driven by the higher membership and pricing, mainly in US, UK, Argentina, and France. Revenue grew y-y worldwide by 13%, led by 9% to USD4.6b in US, 15% to USD3.4b in EMEA, 8% to USD1.3b in Latin America, and +23% to USD1.3b in Asia Pacific.

## Margin on the rise

Gross profit margin continued to improve to 50% (+3pp y-y) to USD5.3b, and operating profit margin rose to 32% (+4pp y-y) to USD3.3b, due to the benefit of Netflix's operating leverage given the largest investment of content was a relatively fixed. Debt stood at USD15b vs operating cash flow of USD7.9b (20% margin), leading to free cash flow of USD7.4b (19% margin) in 1Q25. 2Q25E revenue growth y-y is guided at 15% as Netflix expects the full benefit of the price hikes to drive up membership and advertising revenues, which it projects to reach USD9b by 2030. Operating profit margin is projected to rise to 33% (+6pp y-y) in 2Q25E and EPS forecast is USD7.05.

## Conquering from DVD to streaming to global entertainment

Netflix continues to ride on its phenomenal success on content creation, particularly on series that have made Netflix as consumers' choice of content such as *Stranger Things*, *Queen of Gambit*, and the recent hit *Adolescence* and *Squid Game 2*. Other hits include *Back in Action* and *Counterattack*. After spending USD17b in 2024, Netflix plans to increase content spending to USD18b in 2025E, to strengthen the content.

## Content strategy is key to drive growths

Netflix has implemented a number of growth strategies that have enhanced its revenue and profitability, including 1) introduced new ads membership vs its previous ads-free membership to successfully build up larger customer base as well as ads revenue as Netflix's new growth engines. Over half of new sign-ups in ad market choose the ad plan, supporting long term monetization; 2) launched sports live programs – WWE RAW wrestling, consistently ranked Top 10, Boxing Taylor vs Serrano rematch, and a second NFL game during Christmas after its highly successful first try in 2024.

## Is Netflix's USD1tr (vs current USD420b) valuation goal by 2030 achievable?

Management expects to grow its market cap to USD1tr by 2030 (vs USD420b today), which implies a 15% CAGR in the next six years. We think this goal is achievable given Netflix has 1) unrivaled strengths in content creation; 2) high operating leverage on high fixed-cost structure; 3) benefit of its first-mover to fast mover; 4) high growth potential for ads revenue. Trading at 46x and PEG at 1.4x, we think Netflix remains undervalued given its higher-than-expected growth potentials on growths in ads and membership. Consensus TP is now around USD1,100-USD1,200 for Netflix.
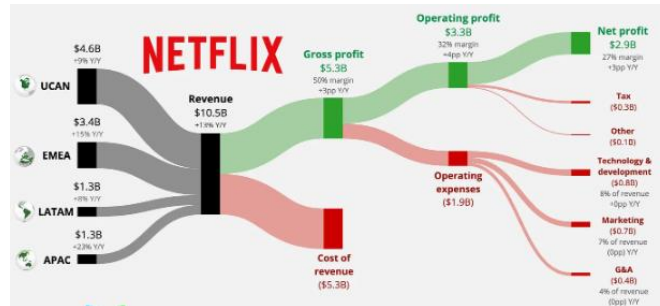
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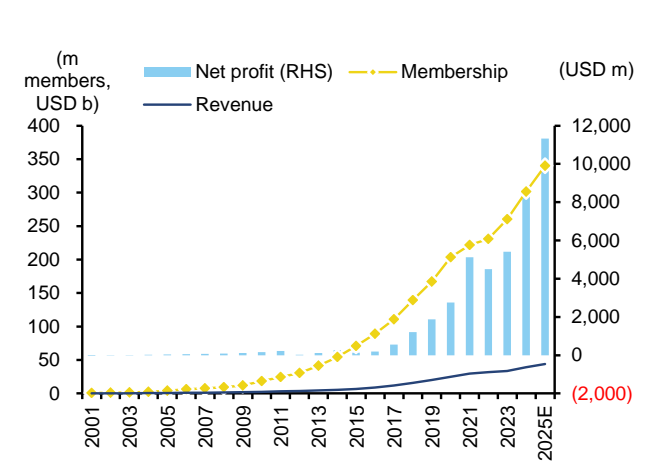## Exhibit 1: Gross margin vs operating margin



Sources: APP Economy Insight

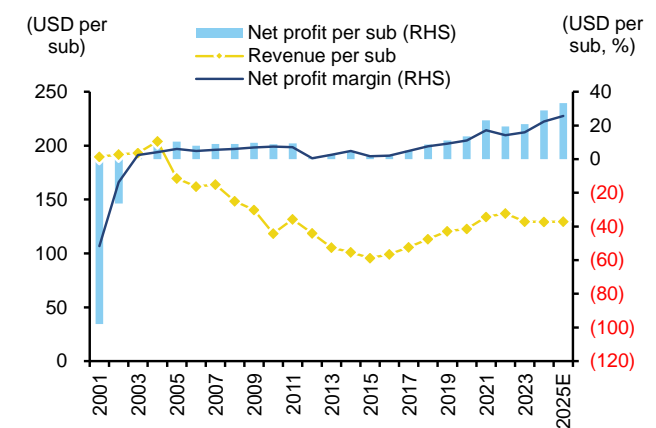## Exhibit 2: Financial breakdown 1Q25



Sources: Netflix; APP Economy Insight

## Exhibit 3: Net profit, number of members, revenue



Sources: Netflix

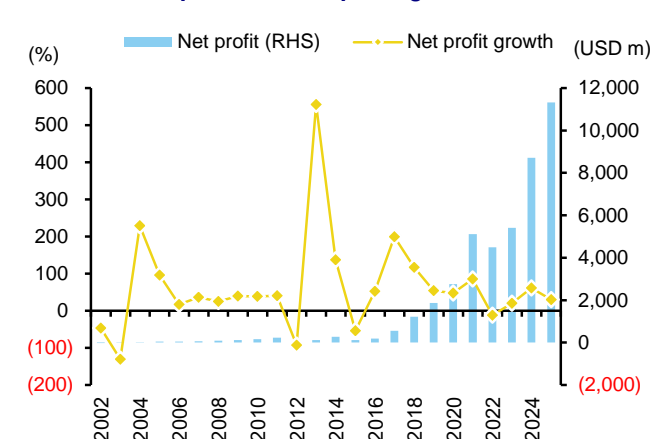## Exhibit 4: Net profit per sub, revenue per sub, and net profit margin



Sources: Netflix

## Exhibit 5: Content spending



Sources: Netflix

## Exhibit 6: Net profit and net profit growth



Sources: Netfflix

## Exhibit 7: Netflix's all time best content

| Ranking | Content | Views (m viewers) | Runtime (hours) | Hours Viewed (m hours) |
|---|---|---|---|---|
| 1 | Wednesday: Season 1 | 252.1 | 06:49 | 1,719 |
| 2 | Stranger Things 4 | 140.7 | 13:04 | 1,838 |
| 3 | Adolescence: Limited Series | 124.2 | 03:50 | 476 |
| 4 | DAHMER: Monster: The Jeffrey Dahmer Story | 115.6 | 08:55 | 1,031 |
| 5 | Bridgerton: Season 1 | 113.3 | 08:12 | 929 |
| 6 | The Queen's Gambit: Limited Series | 112.8 | 06:37 | 746 |
| 7 | Bridgerton: Season 3 | 106 | 07:59 | 847 |
| 8 | The Night Agent: Season 1 | 98.2 | 08:11 | 803 |
| 9 | Fool Me Once: Limited Series | 98.2 | 06:25 | 630 |
| 10 | Stranger Things 3 | 94.8 | 07:33 | 716 |

Sources: Netflix

## Exhibit 8: Netflix's all-time fast-viewed content

| Movie Title | Hours Watched (in first 28 days) |
|---|---|
| Red Notice (2021) | 364 million |
| Don't Look Up (2021) | 360 million |
| Bird Box (2018) | 282 million |
| Glass Onion: A Knives Out Mystery (2022) | 279 million |
| The Gray Man (2022) | 253 million |
| The Adam Project (2022) | 233 million |
| Extraction (2020) | 231 million |
| Purple Hearts (2022) | 228 million |
| The Unforgivable (2021) | 215 million |
| The Irishman (2019) | 215 million |

Sources: Netflix

# GENERAL DISCLAIMER
## Analyst Certification

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# RECOMMENDATION STRUCTURE
## Stock Recommendations

Stock ratings are based on absolute upside or downside, which we define as (target price* - current price) / current price.

**BUY:** Expected return of 10% or more over the next 12 months.
**HOLD:** Expected return between -10% and 10% over the next 12 months.
**REDUCE:** Expected return of -10% or worse over the next 12 months.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.
* In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.

## Sector Recommendations

**Overweight:** The industry is expected to outperform the relevant primary market index over the next 12 months.

**Neutral:** The industry is expected to perform in line with the relevant primary market index over the next 12 months.

**Underweight:** The industry is expected to underperform the relevant primary market index over the next 12 months.

## Country (Strategy) Recommendations

**Overweight:** Over the next 12 months, the analyst expects the market to score positively on two or more of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Neutral:** Over the next 12 months, the analyst expects the market to score positively on one of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.

**Underweight:** Over the next 12 months, the analyst does not expect the market to score positively on any of the criteria used to determine market recommendations: index returns relative to the regional benchmark, index sharpe ratio relative to the regional benchmark and index returns relative to the market cost of equity.